

WASHINGTON, DC (December 11, 2009) -- Seniors are losing their homes in huge numbers due to a surge in fraudulent reverse mortgage schemes that prey upon those in desperate financial situations. Rep. Jan Schakowsky, D-IL, passed legislation in the U.S. House of Representatives today that will protect seniors from the deceitful tactics by increasing the authority of the Consumer Financial Protection Agency to investigate and prosecute these con artists.

“We have an obligation to protect our seniors from malicious fraud and prosecute anyone who means to do them harm,” said Rep. Schakowsky. “Many seniors are turning to reverse mortgages and they need to feel safe and secure in their decision. We must do everything in our power to ensure the fidelity of the system and shield our parents and grandparents from being cheated or misled.”

Reverse mortgages are unique mortgage products that allow homeowners over the age of 62 to borrow against their homes to receive either a cash payment or a line of credit. The loan is paid back when the homeowner dies or sells the home. In the past three years, more than 335,000 federally-insured reverse mortgages have been issued to seniors; eclipsing the total number that was issued between 1990 and 2006.

An October report by the National Consumer Law Center found many of the same abusive and deceptive practices in reverse mortgage transactions that were common in the subprime lending market before its collapse. Those practices include high fees, incentives for brokers that are harmful to borrowers, and lenders steering consumers to products more costly than they necessary. Unfortunately, the complexity of the loans and the age of the typical borrower have made the reverse mortgage market ripe for scam artists.

In the previous form, financial reform legislation did not provide clarity for the role of CFPB in the reverse mortgage market.

Rep. Schakowsky's amendment provides explicit authority to the CFPB Director to monitor and regulate the practices of lenders and brokers engaged in reverse mortgage transactions, under both consumer protection and housing statutes. CFPB will be required to develop regulations that will ensure reverse mortgage transactions are fair, not deceptive or abusive.

"Reverse mortgages can be a lifesaver, allowing many seniors to be able to stay in their homes when funds get tight. But, we must make sure that seniors who use reverse mortgages are protected against unlawful and unfair practices," said Rep. Schakowsky. "While families are making financial decisions during these tough times we must ensure that those decisions can be made with peace of mind."